

HTF COST EFFECTIVENESS COMMITTEE
MEETING SUMMARY
June 18, 2012

This first meeting was a general discussion of the primary questions and concerns regarding development of a cost-containment policy for the Housing Trust Fund. Key issues and concerns included:

Definition of Cost – What’s included and what’s not

- Many ways to define cost (total development cost, residential cost, construction cost, etc.)
- Many ways to measure cost (total cost, cost per unit, cost per sq. ft., etc.)
- Many costs are beyond the control of project developers (e.g. reserve requirements of other lenders, prevailing wage rates, land costs, fees, etc.)
- Certain items may cause costs to vary widely between projects, even within same area and/or project type (e.g. land, infrastructure, mitigation of soils issues, etc.)
- Do long-term (O&M) costs get factored in and, if so, how?

Unintended Consequences

- Reduced quality, durability, sustainability due to higher front-end cost
- Drives development to low-cost areas and project types that are easier/cheaper to develop
- Highest priorities for state and local agencies may not be lowest cost projects

Other comments/concerns

- Budgets are typically established 2 years before construction begins
- Limited capacity/expertise of HTF staff to evaluate construction costs in detail at application phase
- Limited ability to calculate potential payback of efficiency investments
- Limited ability to project long-term capital needs at application phase
- No real standards or benchmarks for typical construction costs
- Need to establish clear expectations around “reasonable cost”
- Need to establish clear expectations around use of contingency
- Certain fund sources drive costs higher (e.g. CDBG, LIHTC, etc.)
- Need to ensure a diverse portfolio that serves the spectrum of need – certain projects may cost more but serve a high priority population or area
- Soft costs are higher proportion of small projects, creates disadvantage, especially for rural areas
- Need to consider opportunities/incentives for savings beyond application phase
- A cost “range” is preferable to a cost “limit”, need to allow for variances if justified